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Proposed statement on Responsibilities in tax practice, entitled : Use of Estimates;Use of Estimates; Exposure draft (American Institute of Certified Public Accountants), 1968, Jan. 17

American Institute of Certified Public Accountants. Committee on Federal Taxation

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Recommended Citation

American Institute of Certified Public Accountants. Committee on Federal Taxation, "Proposed statement on Responsibilities in tax practice, entitled : Use of Estimates;Use of Estimates; Exposure draft (American Institute of Certified Public Accountants), 1968, Jan. 17" (1968). *Statements of Position*. 339.

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TAX COMMITTEE COMMENTS AND RECOMMENDATIONS

Exposure Draft of the Proposed Statement, on
Responsibilities in Tax Practice, Entitled:
"Use of Estimates", Dated 1/17/68

Part of a Special Series Published by
The American Institute of Certified Public Accountants

This is an Exposure Draft dated 1/17/68. It has not been adopted by the Committee on Federal Taxation. Comments will be considered prior to final action.

STATEMENTS ON RESPONSIBILITIES
IN TAX PRACTICE

SUBJECT: USE OF ESTIMATES

ISSUED BY THE

Committee on Federal Taxation
of the American Institute of
Certified Public Accountants

I. INTRODUCTION

This Statement considers the responsibility of a
certified public accountant in connection with the use of
estimates in the preparation of a Federal tax return which he
signs as preparer.

II. STATEMENT

A certified public accountant may prepare tax returns
involving the use of estimates if either such use is generally
acceptable or, under the circumstances, it is impracticable to
obtain adequate actual data. When estimates are used, they
should be presented in such a manner as to avoid the implica-
tion of greater accuracy than exists.

The CPA should satisfy himself that estimated
amounts are reasonable under the circumstances.

III. EXPLANATION

A. Accounting Judgments - Accounting requires the
exercise of judgment and in many instances the use of approxi-
mations based on judgment. For example, in computing

depreciation, judgment enters into the determination of useful
life, salvage value, obsolescence, and other factors determin-
ing the amount of cost absorption charged against the income
of a given time period. Similarly, judgment enters into the
valuation of inventory, the addition to a reserve for bad debts,
the allocation of acquisition costs to individual units of
property bought in bulk for a lump sum, the determination of an
overhead rate, and similar matters. The application of such
accounting judgments is generally accepted and expected and
these judgments are not estimates within the purview of this
Statement.

B. Small Expenditures - In the case of transactions
involving relatively minor expenditures, accuracy of recording
of some data is difficult to achieve. It is not practicable,
for example, to require accurate recording of frequently
recurring small expenditures, such as sales and gasoline
taxes. Use of estimates in arriving at deductions for such
items is expected and an accepted practice.

C. Unavailable Data - In other cases all of the
facts relating to a transaction will not be accurately known,
either because records are missing or because precise infor-
mation is not yet available at the time the return must be
filed. In such cases, estimates of the missing data may be
made.

D. Manner of Presentation - It is not good practice 1
to present estimates in such a way as to imply greater 2
accuracy than exists. Estimated amounts may be presented in 3
any manner which will avoid deception or a misleading impression 4
of the facts. Under some circumstances it may be necessary 5
to state expressly that an amount has been estimated. In other 6
instances use of a round amount, or an amount suggested in 7
a Treasury Department guideline, may constitute a sufficient 8
designation as an estimate. If a tax return entry is an 9
aggregation of items which includes a significant estimated 10
amount, such estimated amount should be disclosed. 11

E. Requirement of Reasonableness - Whenever 12
estimates are used, the CPA should satisfy himself that 13
estimated amounts are reasonable under the circumstances. 14